

## Message Text

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SS-20 STR-08 CEA-02 L-03 PRS-01 PA-04 USIA-15 H-03

VO-03 INSE-00 SCI-06 FEA-02 DRC-01 /186 W

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R 231346Z MAY 74

FM AMEMBASSY MOSCOW

TO SECSTATE WASHDC 9106

C O N F I D E N T I A L SECTION 1 OF 2 MOSCOW 7789

PASS COMMERCE FOR BEWT/BOWDEN

E.O. 11652: GDS

TAGS: ETRD, UR, US

SUBJECT: STATUS OF KAISER INDUSTRIES NEGOTIATIONS ON  
SOVIET ALUMINUM PROJECT

1. SUMMARY. KAISER INDUSTRIES AND USSR MINISTRY OF NON-FERROUS MATALLURGY SIGNED PROTOCOL AGREEMENT ON ALUMINUM PROJECT MAY 22. IN DISCUSSION WITH DCM MAY 23, KAISER INDUSTRIES VICE CHAIRMAN TREFETHEN WAS QUITE OPTIMISTIC ON POSSIBILITY OF EVENTUALLY REACHING FINAL CONTRACT, ALTHOUGH HE POINTED OUT THAT MUCH HARD BARGAINING WAS AHEAD. TREFETHEN ADVISED THAT HE AND KAISER EXECUTIVE VICE PRESIDENT GIRARD PLANNED BE IN WASHINGTON JUNE 4,5 AND 6 AT WHICH TIME THEY WOULD LIKE TO MEET WITH OFFICIALS OF WHITE HOUSE, DEPARTMENTS OF STATE AND COMMERCE, AND EX-IM BANK TO DISCUSS KAISER PROJECT. KAISER'S WASHINGTON REP DUFFY WILL COORDINATE SCHEDULE OF WASHINGTON MEETINGS. ACTION REQUESTED: IN VIEW IMPORTANCE OF KAISER PROJECT, I HOPE IT WILL BE POSSIBLE FOR TREFETHEN AND GIRARD TO MEET WITH APPROPRIATE OFFICIALS IN WASHINGTON. TREFETHEN ALSO PLANS REQUEST MEETING

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WITH SENATOR JACKSON. END SUMMARY.

2. KAISER INDUSTRIES VICE CHAIRMAN TREFETHEN AND DEPUTY MINISTER OF NON-FERROUS METALLURGY KOSTIN SIGNED BASIC PROTOCOL AGREEMENT ON ALUMINUM PROJECT MAY 22. PROTOCOL IS TECHNICAL DOCUMENT WHICH OUTLINES SCOPE OF PROJECT (1 MILLION TONE PER YEAR ALUMINA PLANT, 500,000 TON PER YEAR ALUMINUM SMELTER, AND ROLLING MILL WITH ANNUAL CAPACITY OF

250,000 TONS OF SEMI-FINISHED ALUMINUM PRODUCTS) AND SETS OUT IN GENERAL TERMS RESPONSIBILITIES OF BOTH SIDES. KAISER HAD EARLIER PROPOSED THAT TWO SIDES SIGN MORE EXTENSIVE AGREEMENT INCLUDING FINANCIAL ASPECTS OF PROJECT. HOWEVER, SOVIETS POINTED OUT THAT ONLY MINISTRY OF FOREIGN TRADE COULD SIGN SUCH AN AGREEMENT ON SOVIET SIDE, AND MINISTRY OF FOREIGN TRADE NOT YET READY TAKE SUCH A STEP.

3. NEXT STEP FOR KAISER, AS TREFETHEN EXPLAINED DURING MAY 23 MEETING WITH DCM, IS TO REVISE KAISER'S BASIC PROPOSAL ON BASIS INFORMATION OBTAINING DURING CURRENT VISIT. THIS PROCESS SHOULD BEGIN IN ABOUT TWO WEEKS, AND KAISER HOPES SOVIETS WILL SEND GROUP OF THREE EXPECTS TO PARTICIPATE IN THIS WORK. VISIT BY SOVIETS IS IN DOUBTFUL CATEGORY, HOWEVER, DUE TO PROBLEMS IN OBTAINING NECESSARY INTERNAL SOVIET CLEARANCES. (COMMENT: VISA APPLICATION FOR THIS GROUP, IF IT MATERIALIZES, WILL BE LAST-MINUTE AFFAIRS, AND EMBASSY HOPES IT CAN BE PROCESSED EXPEDITIOUSLY IN WASHINGTON. END COMMENT). FOLLOWING RESUBMISSION OF BASIC PROPOSAL, TREFETHEN ASSUMES THAT FINANCIAL NEGOTIATIONS WILL BEGIN, PERHAPS IN JULY OR AUGUST. ALTHOUGH HE NOTED THAT THESE NEGOTIATIONS PROMISE TO BE LONG AND HARD, HE SAID THAT SOVIETS CLEARLY WISH TO MOVE AHEAD ON THIS PROJECT WITH KAISER AND HE HOPES HIGH-LEVEL SOVIET COMMITMENT TO PROJECT WILL AID IN REACHING AGREEMENT.

4. FINANCING. ALTHOUGH KAISER HAS ARRANGED FOR FINANCING PRIVATELY WITH BANK OF AMERICA AND FIRST BOSTON, TREFETHEN SAID HE BELIEVES EX-IM FINANCING WOULD PROBABLY BE ESSENTIAL, GIVEN FACT THAT FOREIGN COMPONENT FOR TOTAL PROJECT LIKELY TO BE IN NEIGHBORHOOD OF \$1 BILLION. ADDITION OF ROLLING MILL, WHICH INCLUDES FOREIGN COMPONENT OF ABOUT \$400 MILLION, COMPLICATES FINANCIAL ASPECTS, FROM KAISERS' POINT OF VIEW. CONFIDENTIAL

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TREFETHEN NOTED, INTER ALIA, THAT THIS ROLLING MILL WOULD BE FIRST SUCH FACILITY WITHIN JURISDICTION OF MINISTRY OF NON-FERROUS METALLURGY. EXISTING SOVIET ROLLING MILLS ARE UNDER MINISTRY OF AVIATION INDUSTRY. TREFETHEN NOTED THAT ROLLING MILL WHICH KAISER DISCUSSING WOULD HAVE BROAD RANGE OF CONSUMER ITEMS AMONG PRODUCT MIX, INCLUDING FOIL, FRAMES FOR WINDOWS AND DOORS, TOOTHPASTE TUBES ETC.

5. TECHNOLOGY. IN DISCUSSION WITH DCM, TREFETHEN STRESSED KAISER'S INTEREST IN OBTAINING SOVIET TECHNOLOGY IN CERTAIN AREAS OF ALUMINUM INDUSTRY, ESPECIALLY RELATING TO UTILIZATION OF LOW-GRADE BAUXITES. HE SAID THAT FROM KAISER'S POINT OF VIEW, COOPERATION WITH SOVIETS WOULD BE EXTREMELY USEFUL IN DEVELOPING ALTERNATIVES TO USE OF HIGH-GRADE (JAMAICAN AND AUSTRALIAN) BAUXITES WHICH BECOMING INCREASINGLY COSTLY. TREFETHEN AND HIS ASSOCIATES WERE FULL OF PRAISE FOR HIGH LEVEL OF RESEARCH WORK UNDERWAY AT VAMI INSTITUTE IN LENINGRAD. FROM SOVIET POINT OF VIEW, COOPERATION WITH KAISER WOULD BE PARTICULARLY USEFUL IN ROLLING MILL AREA, WHERE KAISER'S TECHNOLOGY MORE ADVANCED. TREFETHEN NOTED THAT IN THEIR EXISTING SMELTERS, SOVIETS USE "SODERBERG" PROCESS EXCLUSIVELY AND HAVE NOT YET INTRODUCED "PRE-BAKE" PROCESS WHICH WOULD BE USED IN SMELTER WHICH KAISER DISCUSSING. KAISER, ON OTHER HAND, IS PHASING OUT ITS "SODERBERG" SMELTERS DUE TO ENVIRONMENTAL PROBLEMS.

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C O N F I D E N T I A L SECTION 2 OF 2 MOSCOW 7789

6. IMPRESSIONS OF SOVIET ALUMINUM INDUSTRY. TREFETHEN AND OTHER KAISER EXECUTIVES SPENT THREE DAYS AT BRATSK AND WERE GIVEN FULL TOUR OF FACILITIES. KAISER GROUP WAS EXTREMELY IMPRESSED WITH BRATSK PLANT, WHICH CURRENTLY IN PROCESS OF EXPANSION WHICH WILL BRING ANNUAL CAPACITY FROM CURRENT LEVEL

OF 600,000 TONS TO 800,000 TONS BY MARCH 1975. ALL EXISTING

EQUIPMENT IN PLANT PLUS EQUIPMENT FOR NEW LINES OF SOVIET  
MANUFACTURE WITH EXCEPTION OF OVERHEAD CRANES (CZECH).

7. PECHINEY PROJECT. KAISER OFFICIALS REPORTED THAT EFFORTS  
OBTAIN INFORMATION FROM SOVIETS ON NEGOTIATIONS WITH  
PECHINEY-UGINE KUHLMANN FOR SMELTER PRODUCED LITTLE NEW DATA.  
SOVIETS REPEATED PREVIOUS ASSURANCES THAT KAISER AND PECHINEY  
PROJECTS IN NO WAY COMPETITIVE, A STATEMENT WHICH KAISER  
ACCEPTS AT FACE VALUE. TREFETHEN SAID HE UNDERSTOOD ONE OF  
MAJOR PROBLEMS IN PECHINEY-SOVIET NEGOTIATIONS WAS PRICE  
TO BE CHARGED FOR GUINEAN ALUMINA. TREFETHEN ALSO ADVISED  
THAT SOVIETS PLAN TO BUILD THIRD SMELTER (IN ADDITION THOSE UNDER  
DISCUSSION WITH KAISER AND PECHINEY) AND ARE INTERESTED IN  
POSSIBILITY OF BUYING BAUXITE OR ALUMINA FROM KAISER FOR  
THIS SMELTER.

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8. OTHER KAISER PROJECTS. AFTER MUCH DISCUSSION, MINISTRY  
OF MERCHANT MARINE HAS ADVISED KAISER THAT IT WANTS TO ENGAGE  
KAISER ENGINEERS AS CONSULTANTS FOR MAJOR BULK CARGO  
PORT PROJECT ON BLACK SEA. THIS COULD INVOLVE \$100 TO 200  
MILLION. IN ADDITION, MINISTRY OF NON-FERROUS METALLURGY  
ASKED KAISER WHETHER IT WOULD BE INTERESTED IN SILICON PLANT.  
KAISER, WHICH NOT INVOLVED IN THIS AREA, DETERMINED THAT UNION  
CARBIDE WAS INTERESTED IN SOVIET PROJECT AND PUT UC INTO CONTACT  
WITH MINISTRY. KAISER ENGINEERS MAY BE INVOLVED IN SILICON  
PLANT TOGETHER WITH UC. IN ADDITION, SOVIETS HAVE NOW IN-  
DICATED THAT THEY PREPARED TO DISCUSS LONG-TERM AGREEMENT TO  
SELL ALUMINUM INGOT TO KAISER, AND KAISER TRADING OFFICIALS  
SCHEDULED MEET WITH RAZNOIMPORT PRESIDENT RUSOV MAY 23 FOR  
INITIAL DISCUSSIONS. TREFETHEN SAID THIS WAS IMPORTANT STEP,  
GIVEN FACT THAT SOVIETS HAVE NO TROUBLE FINDING CUSTOMERS  
FOR THEIR ALUMINUM. MOREOVER, LONG-TERM SALES CONTRACT OF THIS  
TYPE COULD BE USED BY KAISER TO RAISE PART OF FINANCING  
NEEDED FOR ALUMINA/ALUMINUM/ROLLING MILL PROJECT.

9. WASHINGTON MEETINGS. TREFETHEN SAID KAISER REALIZED THAT  
ALUMINUM PROJECT HAD REACHED POINT WHERE DISCUSSIONS WITH  
INTERESTED WASHINGTON AGENCIES WERE ESSENTIAL. DURING  
WEEK OF JUNE 3, HE HOPES TO BE ABLE TO MEET WITH OFFICIALS OF  
WHITE HOUSE, STATE, COMMERCE AND EX-IM BANK TO REVIEW BIDDING.  
IN ADDITION, TREFETHEN SAID HE PLANNED REQUEST APPOINTMENT  
WITH SENATOR JACKSON IN ORDER TO HAVE OPPORTUNITY DEMONSTRATE  
TO SENATOR THAT KAISER PROJECT WAS IN U.S. NATIONAL INTEREST  
AND SHOULD BE SUPPORTED BY CONGRESS. DCM SAID HE AGREED THAT  
MEETING WITH INTERESTED WASHINGTON AGENCIES WOULD BE DESIRABLE  
AT THIS POINT AND ADDED THAT HE COULD SEE UTILITY OF MEETING

WITH SENATOR JACKSON AND OTHER MEMBERS OF CONGRESS.

10. COMMENT: ALTHOUGH MUCH REMAINS TO BE DONE BEFORE KAISER  
OBTAINS A CONTRACT FOR ALUMINUM PROJECT, LATEST ROUND OF  
TALKS BROUGHT COMPANY CONSIDERABLY CLOSER TO THAT  
GOAL. EMBASSY HAS IMPRESSION THAT AT THIS POINT KAISER PRO-  
JECT IS CLOSER TO REALIZATION THAN ANY OF OTHER PENDING US-  
SOVIET DEALS IN RAW MATERIALS/ENERGY AREA.  
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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** CONSTRUCTION, ALUMINUM, NEGOTIATIONS, PROGRAMS (PROJECTS), INDUSTRIAL PLANTS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 23 MAY 1974  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** GarlanWA  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1974MOSCOW07789  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Film Number:** D740129-0412  
**From:** MOSCOW  
**Handling Restrictions:** n/a  
**Image Path:**  
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**Legacy Key:** link1974/newtext/t19740524/aaaaauju.tel  
**Line Count:** 231  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION COME  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 5  
**Previous Channel Indicators:**  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** GarlanWA  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 11 JUN 2002  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <11 JUN 2002 by elyme>; APPROVED <04 MAR 2003 by GarlanWA>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** STATUS OF KAISER INDUSTRIES NEGOTIATIONS ON SOVIET ALUMINUM PROJECT  
**TAGS:** ETRD, UR, US, KAISER INDUSTRIES  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005